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TAGS: ECON EINV PGOV RUS

SUBJECT: RUSSIA: FINMIN KUDRIN CONFIDENT ABOUT STAYING ON,
TALKS ABOUT LIQUIDITY CRISIS, IRAQ DEBT, AND IMF DURING
SEPTEMBER 14TH MEETING WITH AMBASSADOR

Classified By: Ambassador William J. Burns for reasons
1.5 b and d.

¶1. (C) Summary: In a September 14 meeting with the Ambassador, Finance Minister Kudrin expressed confidence that he would remain in office despite the recent change in Prime Ministers. Kudrin's self-assurance seemed to have been boosted by his meeting a little earlier on September 14 with Chief of Presidential Administration Sobyanin at the Kremlin, and a phone call the evening of September 13 with new PM Zubkov. Regarding the growing global liquidity crisis, Kudrin stated that Russian banks should brave the storm. But given Russia's large gold and dollar holdings, the GOR felt more strongly than ever that it should have a seat at the G7 Finance Ministerials. Kudrin pressed for U.S. support for re-starting discussions about the next IMF Managing Director.

He argued strongly that the current selection process was unfair, and that Russia and many other emerging economies were increasingly dissatisfied with the process. On Iraq debt, he was cautiously optimistic an agreement would be signed by December, but that Russia still wanted some tangible demonstration of Iraqi support for Russian business, and a Memorandum of Cooperation, similar to the one signed with Afghanistan, was desired. End Summary.

A Confident Kudrin

¶2. (C) Kudrin said Russia's new Prime Minister, Viktor Zubkov, indicated that he would not be dismissed. Zubkov would make significant changes in both those occupying Ministerial posts but also the structure of the Ministries themselves. Over the next few days, discussions about the shape of this new government would take place, and perhaps even as early as Monday, would become known. (Comment: Kudrin has had a close relationship with Zubkov, who headed the Federal Financial Monitoring Service) FFMS - until appointed Prime Minister; FFMS is in titular terms under the Finance Ministry. Kudrin seemed very confident throughout the meeting. End Comment.)

¶3. (C) Zubkov was not expected to pursue any change in economic policies, said Kudrin. The focus would be to maintain stability and calm in the market. Kudrin spoke highly of Zubkov, calling him a man of integrity, highly skilled and serious about cracking down on corruption. Combating corruption would be a major theme during the

electoral cycle and he noted that even some of the political parties were talking about anti-corruption strategies.

The Liquidity Crisis

¶4. (C) Kudrin noted that the worsening global liquidity crisis was being felt in Russia. There had been a significant outflow of capital, the current account was shrinking and there was decreased confidence in the banking sector. Significant trouble in the banking sector was not expected, but the liquidity crisis might force some banks to close and accelerate banking sector consolidation. The Russian Central Bank stood ready to intervene with Russian banks if necessary. He urged the United States to take serious measures to stabilize the situation and infuse more liquidity into the global financial system.

The G7 should become Eight

¶5. (C) Kudrin argued that now more than ever before, it seemed critical from Russia's point of view to be invited to be part of the G7 Finance Ministers, discussion. Russia held significant dollar and gold reserves and should have a say in how the liquidity crisis would be managed. It was high time, he argued, that Russia became a member and urged that Russia be invited to the G7 Finance Ministers' discussion on the liquidity issue at the World Bank/IMF October meetings. (Note: We were told that Kudrin, Deputy Finance Minister Storchak and Central Bank Governor Ignatiev would attend the Bank meeting.)

IMF Politics

¶6. (C) Explaining why Russia nominated Josef Tosovsky, former Czech PM and Central Bank Governor, for the IMF Managing Director position, Kudrin stated that reform of the selection process was long overdue. The European candidate Strauss-Kahn was opposed by many non-EU countries, as his conversations with his counterparts from China, India, Australia, South Africa, Saudi Arabia, Switzerland and others had highlighted. Russia and many others were frustrated with the opaque nature of nomination process. Tosovsky was extremely competent and more qualified than even Strauss-Kahn. The latter, Kudrin said, was all things to all people, and would not take the disciplined approach needed for the IMF, whose effectiveness as an institution would be especially important if the global liquidity crisis were to worsen. The United States, as the largest shareholder, should be most concerned about the IMF's effectiveness, especially now, and he pressed for active U.S. engagement in the debate. He heard that Treasury Secretary Paulson would meet with Tosovsky on the 18th and asked for the U.S. to keep an open mind.

Iraq debt

¶7. (C) Kudrin reiterated that the debt forgiveness agreement was nearly finalized in technical terms, but the GOR needed a demonstrated and public commitment by the Iraqis that they would give Russian businesses the chance to compete. Russia wanted a Memorandum of Cooperation, similar to one signed with Afghanistan, before the debt agreement would be ultimately completed. Russia's MFA was preparing such a MOU, which would likely be presented to Iraqi Foreign Minister Zebari during his visit to Moscow next week.

Comment

¶8. (C) Besides Kudrin's close relationship with Zubkov, the brewing global liquidity crisis and the shivers it has started to send to the Russian market might have sealed his continuation as Finance Minister. Kudrin has been long been

rightfully credited for keeping a tight rein on spending and
for Russia's fiscal discipline.

Burns